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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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Outlook For the Economy and Real Estate

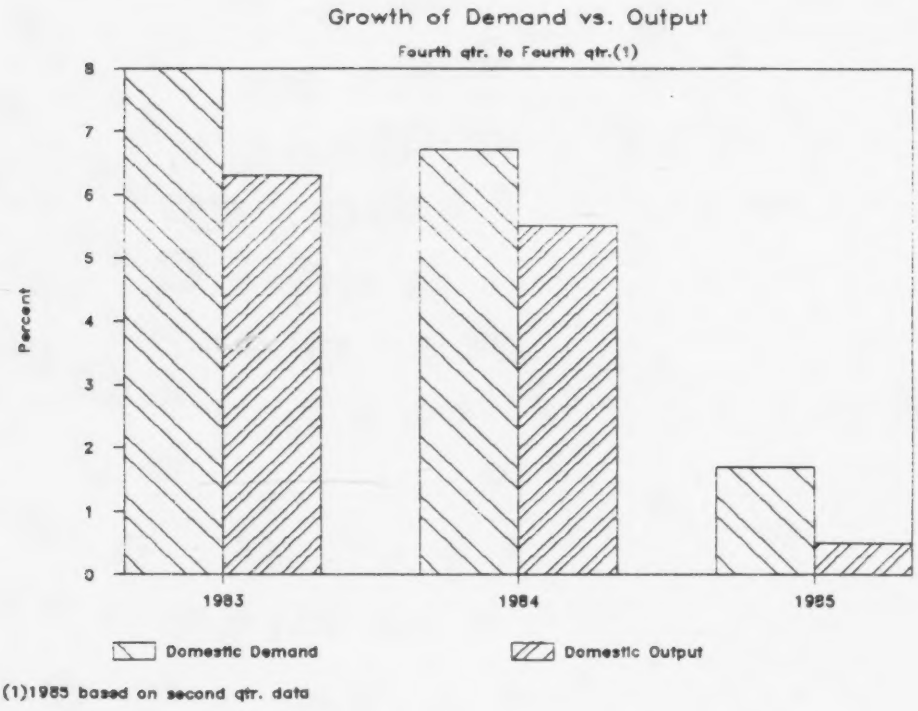
Aggregate Economy

With real economic activity increasing at an anemic rate of 1.1 percent for the first half of 1985, the expansion of the last 2-1/2 years is clearly running out of steam. Real output, after increasing 2.0 percent during the second quarter, is expected to increase a modest 2.5 percent in the third quarter as inventory investment stabilizes and lower interest rates provide some stimulus to the interest-sensitive industries - especially housing. However, the economy is not likely to experience the strength of the magnitude predicted by the Administration for the second half of this year, largely because high real (inflation-adjusted) interest rates and anticipation about possible tax revisions are providing disincentives to private investment.

This rebound in economic activity is likely to be both modest and short-lived. The monthly data for July suggests a slow start as retail sales, consumer spending and personal income all remain weak. In addition, a low savings rate accompanied by the continuation of high levels of consumer debt will lead to lower consumption during the second half of 1985 as consumers attempt to reduce their debt burdens, which presently comprises 18 percent of disposable income. By 1986, the overvalued dollar will continue to boost imports while depressing exports pushing real output growth well below 2 percent for the first three quarters of 1986. By the end of 1986 and through 1987, the dollar should have depreciated by then allowing domestic producers to once again compete in both domestic and international markets, reviving economic growth.

Concern has arisen in the financial markets that the rapid growth of M1 we are presently experiencing will reignite inflationary pressures. However, the accompanying sluggishness of real output despite the strong growth in the money supply is an indication that this will not occur. Currently, domestic demand, which measures spending, far exceeds growth in output, reflecting the continued domination of imports in domestic markets. Historically, when the growth in demand or spending is matched by an increase in output, an increase in capacity utilization and a fall in the unemployment rate occurs. Both of these put upward pressure on prices as profits of domestic producers increase and wages rise. However, a large portion of the domestic demand we are currently experiencing has been for imported goods. It has not lead to any substantial increase in domestic output. (See Figure 1) Subsequently, no such profit, wage and therefore, price pressures should occur in the domestic market. The recent stagnation in both the capacity utilization rate and the unemployment rate underscores this fact.

Figure 1



(1)1985 based on second qtr. data

Employment and Inflation

The civilian unemployment rate remained unchanged at 7.3 percent in July for the sixth month in a row, further underscoring the slowing in overall economic activity. There was good news, however, in the July employment figures, as overall employment increased 243,000 jobs indicating a modest rebound in the third quarter. In fact, even manufacturing employment, which has been on the decline for the past two months, increased slightly in July; an indication that the manufacturing sector may enjoy some of the prosperity of the service sector.

Inflation should remain well under control through 1986 despite the sharp drop in the value of the dollar in foreign trade during the past month. Contributing to a lower inflation rate will be the continued slack in the economy which should keep wage increases moderate. In addition, domestic firms, eager to regain some of the market share they lost to imports during the dramatic appreciation of the dollar, will continue to exhibit restraint in pricing. Finally, falling energy prices and weak food prices will keep overall prices down with Consumer Price Inflation (CPI) expected to increase at a 3.5 percent rate in 1985 and a 3.3 percent rate in 1986. By 1987, though, stronger growth will lead to a modest increase in prices pushing CPI to 3.9 percent.

Monetary Policy and Interest Rates

Both short- and long-term interest rates are expected to trend downward slowly through 1986 as overall demand for credit remains fairly weak reflecting the overall slowing in economic activity. Evidence of weak short-term credit demands has been the recent declines in commercial and industrial loans. However, the decline in interest rates will not be as steep as previously expected as the outflow of foreign capital resulting from the dollar's recent decline and the still enormous federal deficit reduce the overall supply of funds available for borrowing.

Real Estate Markets

The nation's housing markets likely will continue as one of the economy's few bright spots this year and next as most other sectors experience a slowdown. The home resale market is likely to have its best year since 1979 this year with existing single-family home sales expected to total 3.06 million units. An even better year is expected in 1986, with 3.12 million home resales expected, as lower interest rates enable a growing number of families to make the housing purchases they put off in 1981-1983 when interest rates were higher. This volume of resales are adding about $62 billion to the nation's income or about 2 percent of GNP as people prepare houses for sale and fix up homes after purchase and transfer. These add to the demand for goods and services about $20,000 for each affected home.

Home prices are expected to accelerate modestly this year and into 1986, with new-home prices rising faster than existing-home prices. While the median existing single-family home price is likely to increase 3.5 percent this year to $74,800 and 3.6 percent next year to $77,500, the median new-home price is expected to rise 5.2 percent this year to $84,200 and 6.3 percent next year to $89,500.

The economy's lapse into a "growth recession" is taking its toll on contracts for commercial and industrial buildings. After increasing a strong 11% during the first half of 1984, contracting advanced a modest 6 percent through the last half of 1984. Further, contracting for commercial and industrial building virtually ceased altogether during the first 6 months of 1985, increasing a mere 1 percent. The outlook for the remainder of 1985 does not look favorable as contracting for commercial and industrial building is expected to decline by 3 percent in the second half of 1985. Part of the fall off so far in 1985 and the forecast for the remainder of 1985 and 1986 reflects fear of anti-investment tax increases on structures that could lower the value of any new construction by 10 to 20 percent.

Among commercial and industrial buildings, contracts for office building construction will be the most hard-hit. Although office construction experienced strong growth during the first half of 1985, despite a vacancy rate well above 15 percent, most of the gains are short-lived and selective and occurred in the part to a response to grandfathering existing depreciation allowances. This trend is not expected to continue as supply continues to outstrip demand, pushing the rate of contracting down to 285 million square feet in the second half of 1985. By 1986, contracts for new office construction is expected to decline 10 percent to 265 million square feet.

The one bright spot in nonresidential construction has been contracting for stores, shopping centers, and warehouses, which have benefited from increased construction of housing. This area is expected to experience strong growth through the remainder of 1985 and modest growth during 1986 as lower interest rates continue to stimulate housing demand.

Table 1

Commercial and Industrial Building Contracts

Year	Stores and Other Commercial		Office Buildings		Industrial Buildings	
	millions of sq ft	percent change	millions of sq ft	percent change	millions of sq ft	percent change
1981	337	-11%	325	+15%	187	-13%
1982	245	-27%	261	-20%	118	-37%
1983	362	+48%	281	+ 8%	107	-37%
1984	478	+32%	318	+13%	144	+33%
1985[f]	531	+11%	295	- 7%	142	- 1%
1986[f]	550	+4%	265	-10%	140	- 1%

f: forecast

Source: Historical Data: DRI, Review of the U.S. Economy, August 1985.
Forecasts: NATIONAL ASSOCIATION OF REALTORS®

Special Supplement
The Effects of Federal Deficits

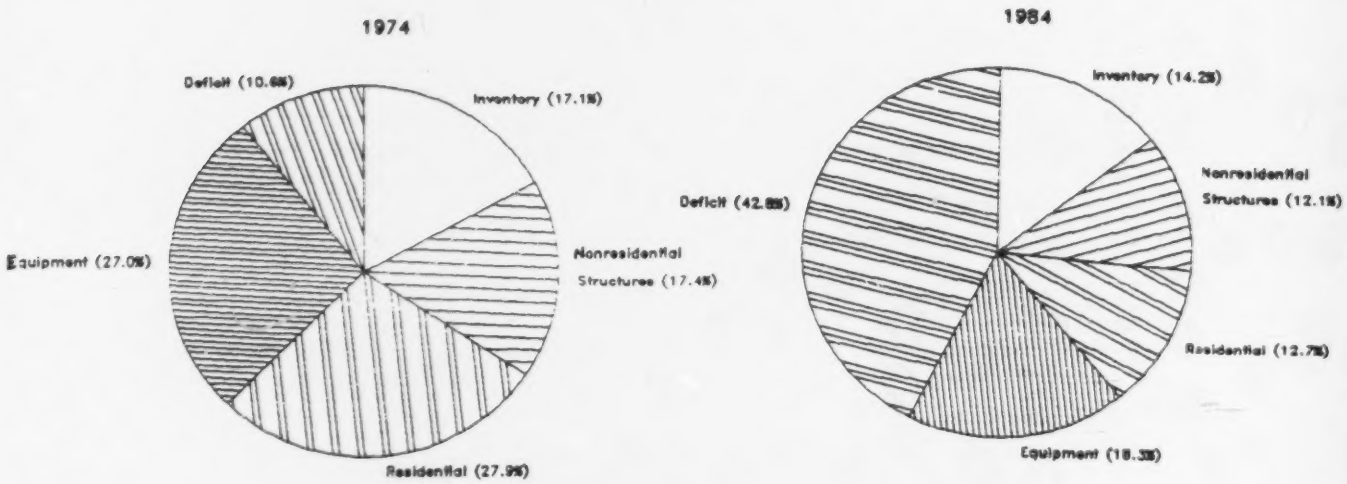
The continued existence of large federal deficits adversely affects economic growth. They increase total demand for savings reducing the share available for investment (current crowding out), causing long-term interest rates to be much higher than they otherwise would be. They cause a more restrictive monetary policy than otherwise would be, pushing short-term interest rates higher as the Federal Reserve (FED) attempts to offset the increased stimulation of government spending that exists while revenues remain unchanged. Finally, large federal deficits increase fears of future inflation.

The deficit "crowds out" the private sector from the capital markets weakening long-term growth. In 1984, the goverment deficit in the U.S. was taking nearly 50 percent of net domestic savings. Consequently, real (inflation- adjusted) long term interest rates in the U.S. were significantly higher when compared with other major industrial countries.

Because deficits have caused high real interest rates to increase at unprecedented rates since 1980, investment in people (education and training), in structures (residential, commercial, industrial and agricultural), in long-life equipment and in homeownership has suffered (Figure 2), leaving overall investment in these areas well below the needs of an expanding economy.

Figure 2

% of Net Domestic Investment



Deficit-induced high interest rates have severe effects on homeownership. The Census Bureau has reported an alarming trend - the rate of homeownership in the U.S. has been on the decline. In 1980, 65.8 percent of the nation's households owned their home, but that figure stood at only 64.7 percent in 1984. If the trend of the early 1980's were to continue by the year 2000, the homeownership rate could be below 60 percent instead of about 72 percent. Since each one-tenth of a percentage point decline in the homeownership rate represents about 85,000 fewer homeowners nationwide, this would translate into 10 million fewer homeowners than there would otherwise be. In as much as the discipline of homeownership leads to greater savings not only for housing but up to 20 percent of the needs of industry, we can expect $50 billion less savings and thus a greater shortage of investable funds to keep the economy growing.

High U.S. interest rates, caused in large measures by the huge federal deficit, attracts foreign capital which helps to finance this deficit. But this offset is incomplete and is at a high cost. The inflow of foreign funds to partially substitute for funds taken to finance the deficit has increased the exchange value of the dollar by over 20 percent. This acts as a tax on U.S. export industries, reducing the quantity of American-made products and services sold abroad. Similarly, it acts like a subsidy on foreign made products and services coming into the U.S., damaging U.S. industries which must compete with imports and inhibiting investment in new and promising businesses.

Because of high federal deficits, we have experienced record balance of payment deficits with resulting declines in American jobs. According to the U.S. Department of Commerce, the 18.9 percent drop in U.S. export volume between 1980 and 1983 has already produced a huge loss of 1.5 million jobs. The Commerce Department has estimated that an average of 25,000 jobs are lost for each one billion dollar decline in export volume. Thus, under current budget deficit projections and the resulting high real interest rates deficits cause, the projected shortfall in export volume of $100 billion will cause a loss of 2.5 million full-time jobs through 1985 and 1986.

The deficit is projected to be over $200 billion through 1987, even with the anemic deficit reduction recently enacted by congress, further withdrawing savings and investment from growth producing activity.

Further, the current level of inflow of foreign capital is assumed to decline modestly through 1987 as the dollar begins to depreciate. Therefore, the "crowding out" effect of the deficit on domestic investment will become even more critical. Without foreign capital inflow during the current recovery, the rate of investment in the United States would have been 30 to 40 percent lower in 1983 and 1984.

By official account, foreign owned assets in the United States as of the end of 1984 totaled $886.4 billion. This amount compares with $914.7 billion of U.S. assets abroad at the end of the same year. Foreign owned assets are likely to exceed U.S. owned assets abroad for the first time in 50 years by the end of 1985.

Table 2
Source of Funds by Area of Origin

	Amount	% of Market
Western Europe	$419.5	47.3
Canada	$57.0	6.4
Japan	$64.1	7.2
Latin America and Other Western Hemisphere Countries	$189.4	21.4

For real estate specifically, the U.S. Department of Commerce reported that at the end of 1984, the stock of foreign direct investment in this area amounted to $16.9 billion. For the same year alone, net capital inflow from this source was $2.2 billion, which is a palfrey 2.3% of net foreign capital inflow. More than one fourth of U.S. savings go into housing and other real estate.

The increasing relative importance of foreign funds to the functioning of the U.S. economy can be better gleaned from looking at the amount that the U.S. had to raise from the international capital market. In 1984, the U.S. raised $65.1 billion or almost 28 percent of bond issues and bank credits in the international capital market. This is a dramatic jump from only about 12 percent of the same total in 1982.

Table 3

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	85:1	85:2	85:3	85:4	86:1	86:2	86:3	86:4	1983	1984	1985	1986	1987
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,811	3,855	3,905	3,959	4,013	4,061	4,113	4,176	3,305	3,663	3,882	4,091	4,384
Percent Change	5.6	4.8	5.3	5.6	5.6	4.9	5.3	6.3	7.7	10.8	6.0	5.4	7.4
Percent Change (without inflation)	0.3	2.0	2.5	2.3	1.7	1.4	1.8	2.5	3.7	6.8	2.3	1.9	3.3
Consumption	5.2	5.3	2.1	3.4	1.4	1.1	1.1	1.5	4.8	5.3	4.0	2.0	2.2
Durables	9.2	7.4	-1.7	9.2	-1.9	-2.5	-1.3	0.2	12.1	13.1	6.8	0.8	1.6
Nondurables	3.7	5.1	1.4	1.6	1.9	0.6	0.7	0.6	3.7	4.6	2.5	1.5	1.6
Services	5.0	4.8	4.0	2.8	2.2	2.9	2.3	2.6	3.4	3.2	4.2	2.9	2.9
Residential Investment	5.5	5.4	8.9	14.9	10.3	2.4	2.3	3.1	41.7	12.2	2.7	7.6	0.4
Nonresidential Investment	-1.5	11.8	1.5	3.3	-1.7	-2.9	0.1	2.5	2.5	19.8	6.6	0.7	4.5
Structures	9.5	8.4	5.9	-2.1	-2.5	-3.7	0.0	1.6	-7.8	15.6	9.1	-0.4	2.2
Equipment	-5.6	13.2	-0.2	5.6	-1.5	-2.5	0.2	2.9	7.3	21.5	5.6	1.1	5.4
Exports	-8.9	-13.0	2.9	6.2	5.9	11.8	12.9	12.8	-5.6	4.7	-3.4	6.7	12.1
Imports	32.2	0.0	12.3	7.0	-1.0	-0.2	-1.2	-0.1	7.6	17.0	8.9	2.3	1.5
Government Purchases	0.3	3.7	-0.9	14.5	-6.7	0.6	-0.3	0.9	-0.3	3.5	4.3	1.0	2.2
Consumption (% of GNP)	65.5	66.0	65.9	66.1	66.1	66.0	65.9	65.7	65.8	66.8	65.9	65.9	65.2
Residential Investment (% of GNP)	3.6	3.6	3.7	3.8	3.9	3.9	3.9	3.9	3.5	3.7	3.7	3.9	3.8
Nonresidential Investment (% of GNP)	12.8	13.1	13.1	13.1	13.0	12.8	12.8	12.8	11.1	12.5	13.0	12.9	13.0
Structures (% of GNP)	3.7	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.2	3.5	3.7	3.6	3.6
Equipment (% of GNP)	9.1	9.4	9.3	9.4	9.3	9.2	9.2	9.2	7.9	9.0	9.3	9.2	9.4
Inventory Change ($ billions)	40.7	18.1	38.8	4.9	19.2	18.4	16.2	14.7	-13.5	58.2	25.6	17.1	15.9
Mfg. Capacity Utilization Rate (%)	81	80	80	80	79	78	78	78	74	81	80	78	80
Auto Sales (millions of units)	10.8	10.9	10.4	11.1	10.9	10.7	10.5	10.5	9.2	10.4	10.8	10.6	10.5
Domestic (% of total)	78.0	75.5	73.1	70.4	71.4	69.8	68.3	66.4	74.0	76.5	74.2	69.0	65.6
Imported (% of total)	22.0	24.5	26.9	29.6	28.6	30.2	31.7	33.6	26.0	23.5	25.8	31.0	34.4
Manufacturing Industrial Production (% change)	0.9	2.3	1.8	4.4	-1.1	-0.6	1.2	2.9	7.8	11.0	2.6	1.1	5.0
Common Market	3.7	6.2	3.1	1.7	1.9	2.3	1.2	2.3	0.3	3.2	3.5	2.3	1.5
Japan	-2.6	12.6	-0.4	2.5	9.0	4.6	3.7	3.1	3.3	11.0	5.2	4.9	1.8
Trade Deficit	120	130	145	147	143	142	139	138	41	102	136	141	130
Value of the U.S. Dollar (Weighted by Trade)	1.350	1.313	1.236	1.208	1.190	1.111	1.076	1.056	1.142	1.224	1.277	1.108	1.016
Percent Change - Year Ago	15.2	10.5	-1.2	-5.8	-11.8	-15.3	-13.0	-12.6	4.0	7.2	4.3	-13.2	-8.3
Employment(millions)(civilian:household basis)	106.7	106.8	107.2	107.7	108.0	108.3	108.6	109.0	100.8	105.0	107.1	108.5	110.3
Percent Change	3.0	0.1	1.5	1.9	1.1	1.3	1.0	1.4	1.3	4.1	2.0	1.3	1.7
Unemployment Rate (%) (civilian)	7.3	7.3	7.3	7.4	7.5	7.6	7.7	7.8	9.6	7.5	7.3	7.6	7.8
Personal Income per Household (average)<1>	40,078	40,394	40,708	41,358	41,958	42,429	42,930	43,501	35,416	38,527	40,635	42,705	45,291
Percent Change -- Year Ago (w/o inflation)	3.5	2.1	1.4	1.4	1.3	1.4	1.5	1.0	1.5	5.4	2.1	1.3	1.8
Personal Taxes per Household (average)	7,760	7,248	7,535	7,689	7,810	7,918	8,038	8,175	6,478	6,956	7,553	7,985	8,543
Percent Change -- Year Ago (w/o inflation)	10.6	1.4	3.7	3.7	-2.1	5.8	3.1	2.7	-3.0	3.5	4.8	2.3	2.9
Percent of Personal Income	20.2	18.8	19.4	19.5	19.5	19.6	19.5	19.7	19.1	18.8	19.5	19.6	19.8
Disposable Income per Household (average)	32,338	33,146	33,174	33,670	34,148	34,513	34,892	35,326	28,938	31,571	33,082	34,720	36,748
Percent Change--Year Ago (w/o inflation)	2.0	2.4	1.1	1.2	2.3	0.6	1.4	0.8	2.5	5.7	1.7	1.3	1.6
Household Debt (% of total)	23.1	23.5	24.3	24.5	24.6	24.7	24.7	24.7	19.7	21.2	23.8	24.7	24.0
Household Interest Payments (% of total)	10.3	10.5	10.9	10.9	10.8	10.8	10.6	10.1	9.7	10.4	10.6	10.6	9.8
Consumer Price Inflation (CPI)	3.3	4.2	2.3	3.3	3.3	3.4	3.5	3.7	3.2	4.3	3.5	3.3	3.9
Gross National Product Inflation (GNP Deflator)	5.4	2.7	2.7	3.2	3.8	3.4	3.4	3.6	3.8	3.8	3.6	3.4	3.9
Personal Consumption Inflation	3.3	3.2	2.7	3.1	3.9	4.1	4.0	4.3	3.7	3.2	3.1	3.6	4.2
Residential Construction Inflation	-0.6	2.6	3.1	3.3	4.7	4.8	5.0	5.2	1.7	3.9	2.3	4.2	5.3
Nonresidential Construction Inflation	3.4	5.2	3.4	3.2	3.6	3.8	3.7	4.3	-1.0	0.3	3.0	3.7	4.2
Producers Price Inflation (WPI)	-2.3	0.3	-1.2	1.9	1.7	1.8	1.5	2.9	1.3	2.4	-0.4	1.4	2.9
Compensation per Manhour (% change)	5.0	3.5	2.4	3.9	5.3	4.6	4.8	5.1	4.8	4.2	3.8	4.3	5.2
Productivity (% change)	-3.3	0.8	1.2	1.0	0.7	0.4	0.9	1.6	3.4	2.7	0.1	0.9	1.8
Unit Labor Cost (% change)	8.5	3.0	0.9	2.8	4.6	4.1	3.8	3.4	1.3	1.4	3.7	3.4	3.3
Before Tax Corporate Profits ($ billions)<2>	229	227	220	215	224	231	233	246	213	243	222	233	279
Corporate Tax Liability	92	90	83	80	86	88	89	95	86	98	86	89	113
After Tax Profits	137	137	137	135	138	143	145	151	127	146	136	144	166
Inventory Valuation Adjustment	1	2	-1	-9	-10	-12	-13	-17	-11	-6	-2	-13	-19
Capital Consumption Adjustment	69	75	80	86	86	84	81	80	33	56	77	83	71
Profits from Current Production (with IVA, CCA)	207	213	216	212	213	215	213	214	149	196	212	214	218
Adjusted for Inflation (85:1 base)	207	211	213	207	207	207	203	202	159	201	210	205	201
Percent Change - Year Ago	7.9	5.1	4.5	0.4	-0.1	-2.2	-4.7	-2.6	46.0	26.5	4.4	-2.4	-2.0
Per Unit of Output (% of GNP)	5.4	5.5	5.5	5.4	5.3	5.3	5.2	5.1	4.5	5.3	5.5	5.2	5.0
Effective Corporate Tax Rate (%)<2>	30	29	27	26	28	28	29	30	34	32	28	29	34
Federal Tax Receipts (Unified basis)	696	826	734	672	667	913	754	721	613	683	732	763	834
Percent of GNP	18.3	21.4	18.8	17.0	16.6	22.5	18.3	17.3	18.6	18.7	18.9	18.7	19.0
Federal Expenditures (Unified basis)	919	936	910	1,002	976	975	951	1,015	803	868	942	979	1,052
Percent of GNP	24.1	24.3	23.3	25.3	24.3	24.0	23.1	24.3	24.3	23.7	24.3	23.9	24.0
Surplus or Deficit (Unified basis)	-223	-110	-177	-329	-310	-62	-197	-295	-190	-184	-210	-216	-218
% of GNP	5.8	2.8	4.5	8.3	7.7	1.5	4.8	7.1	5.8	5.0	5.4	5.3	5.0
% of Personal Savings	187.8	80.6	159.8	286.0	245.5	48.3	148.9	216.0	158.1	117.2	178.5	164.7	141.6
% of Net Domestic Savings	75.5	35.0	62.2	111.8	105.2	21.0	66.7	98.4	80.0	56.5	71.2	72.8	66.2

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach, and Janemarie Mulvey.

Table 4

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS							YEARS				
	Actual		Forecast					Actual		Forecast		
	85:1	85:2	85:3	85:4	86:1	86:2	86:3	86:4	1983	1984	1985	1986	1987
REAL ESTATE MARKETS													
Total Single-Family Home Sales (thousands)	4,057	4,090	4,247	4,322	4,306	4,307	4,318	4,326	3,750	3,936	4,179	4,314	4,135
(single-family resales and completions)													
Percent Change -- Year Ago	-1.9	0.8	14.1	13.0	6.1	5.3	1.7	0.1	42.4	5.0	6.2	3.2	-4.2
Existing Single-Family Home Sales (thousands)	2,970	3,047	3,110	3,113	3,115	3,119	3,120	3,126	2,716	2,866	3,060	3,120	3,000
Percent Change - Year Ago	1.9	2.5	12.5	10.7	4.9	2.4	0.3	0.4	36.5	5.5	6.8	2.0	-3.9
Dollar Volume (billions)	261.3	273.0	278.3	271.6	277.1	281.4	283.0	277.4	224.2	247.1	271.0	279.7	276.5
Existing Home Prices - Median ($1000's)	73.8	73.2	75.8	74.5	76.6	77.9	78.6	77.2	69.8	72.3	74.8	77.5	80.6
Percent Change - Year Ago	3.6	3.4	3.6	3.5	3.5	3.6	3.7	3.6	3.2	3.5	3.5	3.6	3.9
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	657	654	629	604	605	608	594	583	628	680	636	598	632
Percent of Median Family Income	30	29	28	27	26	26	25	24	32	32	28	25	25
Private Housing Starts (thousands)	1,795	1,769	1,873	1,962	1,896	1,909	1,931	1,946	1,703	1,766	1,850	1,920	1,850
Percent Change - Year Ago	-7.8	-4.8	12.6	22.7	5.6	7.9	3.1	-0.8	61.0	3.8	4.7	3.8	-3.7
Single-Family	1,121	1,076	1,172	1,247	1,227	1,225	1,235	1,236	1,066	1,103	1,154	1,231	1,170
Percent of Total	62.5	60.8	62.6	63.6	64.7	64.1	64.0	63.5	62.6	62.4	62.3	64.1	63.3
Multi-Family	674	693	701	715	668	685	696	709	637	664	696	690	679
Percent of Total	37.5	39.2	37.4	36.4	35.3	35.9	36.0	36.5	37.4	37.6	37.7	35.9	36.7
Mobile Home Shipments	277	281	293	296	292	293	293	293	296	295	287	293	286
New Single-Family Home Sales (thousands)	669	657	661	668	674	680	685	702	629	637	664	685	650
Percent Change - Year Ago	-2.0	3.8	7.7	8.2	0.7	3.5	3.6	5.1	50.3	1.3	4.3	3.2	-5.1
New Home Prices - Median ($1000's)	82.9	83.7	84.4	85.6	87.1	88.6	90.4	91.8	75.5	80.0	84.2	89.5	95.1
Percent Change - Year Ago	6.4	3.9	4.0	6.6	5.1	5.9	6.9	7.3	8.9	6.0	5.2	6.3	6.3
New Home Prices--Mean ($1000's, Quality Adjusted)	95.2	95.6	96.5	97.2	98.4	99.4	100.8	102.0	89.7	93.7	96.1	100.1	105.5
Percent Change - Year Ago	4.6	2.4	1.5	2.1	3.4	4.0	4.4	4.9	2.1	4.5	2.6	4.2	5.5
NAR Affordability Index	88.4	90.6	93.8	95.9	96.9	97.6	99.2	103.3	82.0	86.2	92.2	99.2	101.0
Mortgage Debt Outstanding ($ billions)	2,077	2,252	2,637	2,956	3,222	3,450	3,632	3,833	1,755	1,956	2,480	3,539	4,216
Homeowners' Equity ($ billions)	2,235	2,244	2,255	2,267	2,292	2,316	2,340	2,366	2,219	2,244	2,250	2,328	2,444
Housing Inventory (millions)	95.3	95.7	96.1	96.6	97.0	97.4	97.8	98.3	92.7	94.4	95.9	97.6	99.3
Rental Vacancy Rate (%)	6.3	6.2	5.9	5.8	5.8	5.9	5.9	5.9	5.6	5.9	6.0	5.9	5.9
Office Vacancy Rate (%)<1>	15.6	16.1	15.3	15.0	14.5	14.3	14.1	14.0	11.7	13.9	15.5	14.2	13.6
Industrial Vacancy Rate (%)<1>	4.0	4.9	4.5	4.5	4.3	4.2	4.0	3.9	4.9	4.7	4.5	4.1	3.5
New Commercial Building Construction (% Ch Value)	52.6	8.4	-5.3	-0.3	-1.6	0.8	2.3	3.9	-4.2	33.7	24.3	0.0	4.7
New Industrial Building Construction (% Ch Value)	21.6	34.5	-11.7	-6.5	-1.6	-2.2	4.5	12.5	-25.7	5.9	15.2	-0.5	14.5
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-7%)	10.9	10.6	12.6	7.4	7.0	6.6	5.7	5.2	11.2	6.9	8.4	7.6	5.5
M1 Velocity (% change)	-4.8	-5.3	-6.5	-1.7	-1.3	-1.6	-0.4	1.0	-3.2	3.7	-2.1	-2.1	1.8
M2 (% change)(FED Target 6-9%)	12.6	5.4	10.3	7.8	8.0	7.2	8.0	7.5	12.5	7.9	9.0	7.9	7.0
M2 Velocity (% change)	-6.2	-0.6	-4.5	-2.0	-2.3	-2.1	-2.5	-1.1	-4.4	2.7	-2.7	-2.3	0.4
Monetary Base (% change)	6.8	9.5	8.5	6.3	6.3	5.6	5.4	4.6	9.5	8.1	7.2	6.4	5.0
Flow of Funds (NIA Basis)													
Sources (total:gross savings)	671	662	671	655	685	703	711	729	478	653	665	707	764
Private													
Personal Savings	119	136	110	115	126	129	132	136	118	156	120	131	154
Savings Rate	4.5	5.0	4.0	4.1	4.5	4.5	4.6	4.6	5.0	6.1	4.4	4.5	5.0
Gross Business Savings	544	556	563	564	571	581	585	591	454	519	557	582	614
Government													
Federal	-165	-211	-192	-228	-200	-194	-190	-183	-179	-176	-199	-192	-191
State and Local	54	51	44	56	46	44	45	46	44	53	51	45	58
Foreign (current account deficit)	120	130	145	147	143	142	139	138	41	102	136	141	130
Uses (total:gross investment)	647	641	671	650	673	675	681	691	472	638	652	680	730
Nonresidential Investment													
Equipment	288	296	297	303	304	305	307	313	223	275	296	307	337
Structures	163	168	172	173	173	173	175	177	130	150	169	175	186
Residential Investment	155	158	163	170	176	179	182	186	132	154	162	181	191
Inventory Investment	41	18	39	5	19	18	16	15	-13	58	26	17	16
Selected Interest Rates (Percent)													
Mortgage Commitment Rates													
30 Year,Fixed-Rate	13.7	13.4	12.7	12.4	12.1	11.8	11.5	11.5	13.8	14.5	13.0	11.7	11.9
Real Mortgage Rate (30 yr. avg. is 4.5%)	8.3	10.6	10.0	9.2	8.3	8.4	8.1	7.9	10.1	10.9	9.5	8.2	7.7
1 Year ARM (without buy-down)	11.1	10.2	9.5	9.6	9.3	9.1	9.0	9.1	11.3	12.6	10.1	9.1	9.7
Real Mortgage Rate	5.7	7.4	6.8	6.4	5.5	5.7	5.6	5.5	7.5	9.0	6.6	5.6	5.4
Corporate Bond Rate (AAA)	12.3	11.6	10.9	10.6	10.3	10.1	9.8	9.8	12.0	12.7	11.3	10.0	10.0
Government Bond Rate	11.8	11.1	10.6	10.2	9.6	9.3	9.1	9.2	11.3	12.5	10.9	9.3	9.5
Real Government Bond Rate (30 yr. avg. is 2.1%)	6.4	8.4	7.9	7.0	5.8	5.9	5.7	5.6	7.6	8.9	7.4	5.7	5.2
Federal Funds Rate	8.5	7.9	7.7	7.3	6.7	6.6	6.4	6.7	9.1	10.2	7.9	6.6	7.7
3 Month Treasury Bill Rate	8.2	7.5	7.1	6.8	6.5	6.4	6.3	6.3	8.6	9.5	7.4	6.4	7.1
Real 3 Month T-Bill Rate (30 yr. avg is 1.2%)	2.8	4.7	4.4	3.6	2.7	3.0	2.8	2.7	4.8	5.9	3.9	2.8	2.8
1 Year Treasury Bill Rate	9.4	8.5	7.8	7.9	7.6	7.4	7.3	7.4	9.6	10.9	8.4	7.4	8.0
Real 1 Year T-Bill Rate (30 yr. avg is 1.7%)	4.0	5.7	5.1	4.7	3.8	4.0	3.9	3.8	5.8	7.3	4.9	3.9	3.7
Commercial Paper Rate	8.5	7.9	7.5	7.3	6.8	6.7	6.5	6.8	8.9	10.1	7.8	6.7	7.7
Rate on Money Market Fund Shares	8.6	7.9	7.6	7.4	6.9	6.8	6.6	6.9	9.0	10.3	7.9	6.8	7.8
Prime Rate	10.5	10.2	9.4	9.3	8.8	8.8	8.5	8.4	10.8	12.0	9.9	8.6	9.6

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach and Janemarie Mulvey